

KENTUCKY ECONOMIC INDICATORS

August 2006 Indicators as of October 26, 2006

KY Composite Index of Leading Indicators decreased 2.4 percent in August.

- The Leading Index decreased for the fifth time this year.
- The Leading Index declined by 0.2 percent over the same month last year.
- Component indicators leaned positive, 3:2.
 - + KY Labor Intensity Index increased 0.1 percent.
 - KY Index of Initial UI Claims decreased by 13.4 percent.
 - + US Retail Sales increased 1.1 percent.
 - + US Manufacturer's New Orders Index increased 1.8 percent.
 - Louisville Help Wanted Index decreased 2 points to 32.

Component weights for August are 61.68, 17.25, 12.50, 6.54 and 2.02 respectively.

KY Composite Index of Coincident Indicators increased 2.5 percent in August.

- The Coincident Index is positive for the seventh time this year.
- Same-month-last-year growth is positive for the thirty-seventh consecutive month at 3.3 percent.
- All three component indicators leaned positive, 2:1.
 - + KY Nonagricultural Employment increased 5.9 percent.
 - + US Industrial Production Index increased 0.5 percent.
 - US Personal Income Less Transfers decreased 0.1 percent.

Component weights for August are 40.31, 25.15 and 21.10 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

The Kentucky Leading Index was negative for the second straight month. The three-to-two positive component count is a little misleading this month. The Kentucky Labor Intensity Index was essentially zero for August. US Retail Sales, the US Manufacturer's New Orders Index and the Louisville Help Wanted Index were marginal as well. Therefore, the strongly negative Kentucky Index of Unemployment Insurance Claims almost unilaterally determined the sign of the Kentucky Leading Index for August.

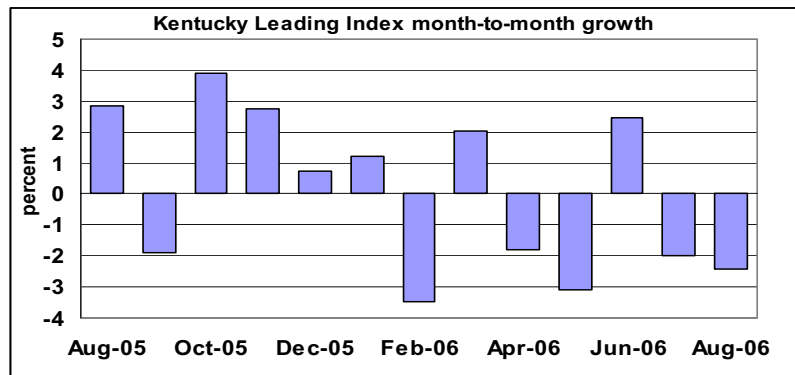
The Kentucky Index of Unemployment Insurance Claims is composed of two components, Kentucky First Pays and US Initial Claims. Kentucky First Pays are those individuals who received their first unemployment payment for a new unemployment insurance benefits year. US Initial Claims are the sum of new applications and additional applications for unemployment insurance. Both components rose in August. Seasonally adjusted US Initial Claims rose from 312,400 in July to 315,700 in August. That is a difference of 3,300 seasonally adjusted claims, an increase of 1.1 percent for one month. Kentucky First Pays rose from a seasonally adjusted 9,444 for July 2006 to 13,353 for August 2006. That is a difference of 3,909 seasonally adjusted claims, an increase of 41.4 percent for one month. August 2006 Kentucky First Pays were the highest they have been since August 1989. The unusually high August claims were due to an unusually high number of planned layoffs. This phenomenon occurred nationally as well. Nationally, where more specific data is available, planned layoffs increased by 76 percent for August.

Kentucky Nonagricultural Employment bounced back strongly from the July layoffs. Employment was up 5.9 percent for August. More importantly, employment rose above its June level by 3,300 seasonally adjusted annually rate jobs, a net gain of 0.2 percent over the two months. For the third consecutive year, some auto industry employers scheduled prolonged planned summer layoffs which spilled over into the survey week in August. If this structure continues, it will get 'built-in' to the seasonalizing process and no longer show up in the data as extreme values.

The Kentucky Unemployment Rate decreased by 0.5 percent in August. The Kentucky Unemployment Rate figures and the Kentucky Nonagricultural Employment figures are internally consistent. At first glance the Kentucky First Pays data may not seem to be consistent with the Kentucky Unemployment Rate data and the Kentucky Nonagricultural Employment data. But Kentucky First Pays do not wholly represent the number of persons filing for unemployment. There are two underlying reasons why the figures are not consistent. First, the First Pays data represents only

a portion of those individuals who receive unemployment insurance. That is, the First Pay claims are only those who have filed for the first time during their current benefits year. Many more unemployed persons are filing for the second or third (or more) months of consecutive benefits during their current benefits year. These individuals are counted in the Additional Applications and not in the First Pays. The movement of those recipients into or out of jobs will determine the unemployment rate but have no effect upon the Kentucky Index of Initial Unemployment Insurance Claims. Second, not all individuals who file a claim will actually receive a claim. This overstates the actual number of beneficiaries for a given month.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **GOEA Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products, chemical and allied products, rubber and plastic products, fabricated metals, and transportation equipment.
- **GOEA Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly.
- **U.S. Manufacturing and Trade Sales:** This series outperformed Kentucky sales tax receipts and U.S. total retail sales. Current manufacturing and trade sales help form the basis for business expectations for the immediate short run. Since production and investment do not occur instantaneously, the formation of expectations (manifested through current manufacturing and trade sales) should slightly lead the business cycle.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.state.ky.us.

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**SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED**

2005

2006

	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
KY Leading Index (1992=100)	109.0	108.8	109.1	109.4	109.5	109.6	109.2	109.4	109.3	109.0	109.2	109.0	108.8
% Chg Previous Month SAAR	2.8	-1.9	3.9	2.8	0.7	1.2	-3.5	2.0	-1.8	-3.1	2.5	-2.0	-2.4
% Chg Same Month Last Year	1.0	0.8	1.1	1.2	1.1	1.3	0.8	1.0	0.8	0.5	0.4	0.3	-0.2
KY Leading Index Diffusion Index	56.7	56.7	60.0	63.3	60.0	66.7	60.0	63.3	56.7	53.3	56.7	50.0	56.7
KY Coincident Index (1992=100)	129.6	130.2	130.7	131.3	131.8	132.1	132.3	132.5	133.0	133.1	133.7	133.7	133.9
% Chg Previous Month SAAR	-7.5	6.1	4.8	4.8	5.1	2.3	1.9	2.6	4.2	0.8	5.5	-0.2	2.5
% Chg Same Month Last Year	1.2	1.7	1.7	1.9	1.3	2.1	2.1	2.3	2.6	2.5	2.5	2.5	3.3
KY Nonag Employment (000s)	1,831.1	1,832.1	1,833.4	1,833.9	1,836.0	1,838.5	1,836.7	1,839.6	1,843.4	1,845.7	1,849.4	1,843.9	1,852.7
% Chg Previous Month SAAR	5.7	0.7	0.9	0.3	1.4	1.6	-1.2	1.9	2.5	1.5	2.4	-3.5	5.9
% Chg Same Month Last Year	1.7	1.6	1.6	1.5	1.4	1.6	1.2	1.3	1.2	1.2	1.3	1.2	1.2
KY Mfg Employment (000s)	261.9	262.1	263.0	262.7	262.0	261.8	261.9	261.0	260.8	260.3	260.5	254.9	260.2
% Chg Previous Month SAAR	26.6	0.9	4.2	-1.4	-3.2	-0.9	0.5	-4.0	-0.9	-2.3	0.9	-23.0	28.0
% Chg Same Month Last Year	-0.9	-0.7	-0.3	-0.5	-0.5	-0.4	-0.3	-0.8	-1.0	-1.1	-1.0	-0.7	-0.6
KY Unemployment Rate (%)	6.2	6.4	6.4	6.4	6.5	6.3	6.3	6.0	6.1	5.6	5.8	6.3	5.8
KY Index of Initial UI Claims	103.1	100.4	102.8	103.5	104.0	105.3	104.1	104.2	104.2	103.0	104.0	103.5	102.3
% Chg Previous Month SAAR	-1.3	-27.2	32.2	8.5	5.7	16.3	-12.8	1.0	-0.2	-12.6	11.7	-4.6	-13.4
% Chg Same Month Last Year	0.9	-2.4	-0.3	0.8	0.7	2.6	0.7	1.0	1.0	0.4	0.7	0.3	-0.8
KY Labor Intensity Index (1992=100)	105.0	104.9	105.0	105.0	104.9	105.2	105.1	105.2	105.0	105.0	105.1	105.0	105.0
% Chg Previous Month SAAR	1.7	-1.2	1.2	0.0	-1.1	2.7	-0.5	0.8	-1.8	-0.3	1.4	-1.5	0.1
% Chg Same Month Last Year	0.0	-0.1	0.1	0.1	-0.1	0.1	0.0	0.0	-0.3	-0.1	0.1	0.1	0.0
Louisville HWI (1992=100)	46.0	56.0	54.0	52.0	52.0	44.0	42.0	40.0	39.0	35.0	37.0	34.0	32.0
% Chg Previous Month SAAR	297.8	959.6	-35.4	-36.4	0.0	-86.5	-42.8	-44.3	-26.2	-72.7	94.8	-63.7	-51.7
% Chg Same Month Last Year	-2.1	40.0	31.7	23.8	26.8	4.8	2.4	0.0	2.6	-10.3	-9.8	-17.1	-30.4
GF Total Tax Receipts (\$ mill)	555.1	778.4	632.7	631.1	836.3	681.4	508.0	598.0	756.5	705.2	808.7	578.7	553.1
% Chg Same Month Last Year	8.1	18.8	12.3	7.4	17.8	3.3	1.4	5.2	-6.4	34.2	9.5	0.8	-0.4
GF Sales & Use Receipts (\$ mill)	217.4	229.6	235.6	218.6	228.8	289.0	191.1	204.5	230.5	235.4	230.8	249.3	230.4
% Chg Same Month Last Year	2.7	11.1	5.2	8.7	5.1	6.5	8.4	2.2	2.8	8.9	5.1	4.6	6.0
GF Income Tax Receipts (\$ mill)	250.8	278.0	259.3	234.0	254.3	220.9	199.1	171.4	340.2	213.1	259.5	228.6	227.4
% Chg Same Month Last Year	2.2	2.1	3.8	1.7	-1.8	-12.6	-14.0	-2.6	-17.8	-1.0	-2.6	-4.0	-9.3

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2005					2006							
	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
US Leading Index (1996=100)	137.0	135.8	136.9	138.2	138.5	139.1	138.4	138.9	138.6	138.0	138.2	137.8	137.5
% Chg Previous Month SAAR	0.9	-10.0	10.2	12.0	2.6	5.3	-5.9	4.4	-2.6	-5.1	1.8	-3.4	-2.6
% Chg Same Month Last Year	1.9	1.0	1.9	2.2	1.8	2.4	1.5	2.6	2.3	1.8	0.8	0.7	0.4
US Coincident Index (1996=100)	119.5	120.1	120.5	121.2	121.6	121.8	122.0	122.3	122.5	122.7	123.0	123.1	123.3
% Chg Previous Month SAAR	-9.5	6.2	4.1	7.2	4.0	2.0	2.0	3.0	2.0	2.0	3.0	1.0	2.0
% Chg Same Month Last Year	1.4	2.0	1.9	2.3	1.4	2.2	2.3	2.4	2.5	2.4	2.3	2.2	3.2
US Nonag Employment (Mil.)	133.8	133.8	133.9	134.2	134.4	134.5	134.7	134.9	135.0	135.1	135.3	135.4	135.6
% Chg Previous Month SAAR	1.6	0.4	0.3	3.2	1.3	1.4	1.8	1.6	1.0	0.9	1.2	1.1	1.7
% Chg Same Month Last Year	1.7	1.6	1.3	1.5	1.5	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3
US Unemployment Rate (%)	4.9	5.1	4.9	5.0	4.9	4.7	4.8	4.7	4.7	4.6	4.6	4.8	4.7
US Manufacturer's New Orders Index (1996=100)	129.9	126.7	128.0	132.4	132.6	127.8	127.5	131.7	128.5	128.7	129.3	127.2	127.4
% Chg Previous Month SAAR	51.4	-26.3	13.7	49.3	2.5	-35.6	-2.9	46.5	-25.4	2.4	5.2	-17.4	1.8
% Chg Same Month Last Year	4.8	3.0	5.5	6.0	5.8	2.8	2.5	7.1	3.6	-0.7	-0.2	1.4	-1.9
US Initial Claims for UI (000s)	317.2	393.4	338.9	315.6	310.4	286.3	306.0	308.9	314.8	333.5	308.8	312.4	315.7
% Chg Previous Month SAAR	-8.6	1,224.4	-83.3	-57.5	-18.1	-62.1	122.2	12.0	25.5	99.9	-60.3	14.9	13.4
% Chg Same Month Last Year	-7.0	16.6	2.5	-4.0	-4.6	-14.2	-5.1	-9.8	-4.2	-0.6	-4.7	-2.3	-0.5
US Industrial Production Index	108.6	107.2	108.4	109.4	110.4	110.3	110.7	111.2	112.1	112.2	113.4	113.8	113.8
% Chg Previous Month SAAR	3.5	-14.7	14.6	11.7	12.0	-0.9	4.3	5.6	9.7	0.7	13.9	3.9	0.5
% Chg Same Month Last Year	3.1	2.0	2.4	3.2	3.5	3.2	3.1	3.7	4.6	4.4	4.7	5.1	4.8
US Personal Income Less Trans. (Bil. 2000 chained)	7,548.6	7,842.4	7,870.2	7,925.6	7,976.0	8,033.5	8,075.9	8,089.8	8,115.4	8,114.3	8,150.9	8,158.8	8,158.4
% Chg Previous Month SAAR	-40.4	58.1	4.3	8.8	7.9	9.0	6.5	2.1	3.9	-0.2	5.5	1.2	-0.1
% Chg Same Month Last Year	-1.3	2.7	2.0	2.7	-0.7	3.2	3.8	4.2	4.4	4.2	4.0	3.5	8.1
CPI, All Urban (1982-84=100)	196.2	198.6	199.1	197.8	197.7	199.0	199.1	199.8	201.0	201.9	202.3	203.2	203.7
% Chg Previous Month SAAR	7.0	15.7	3.1	-7.6	-0.6	8.2	0.6	4.3	7.5	5.5	2.4	5.5	3.0
% Chg Same Month Last Year	3.6	4.7	4.4	3.5	3.4	4.0	3.6	3.4	3.6	4.1	4.3	4.2	3.8
US Retail Sales (\$Billions)	345.6	347.0	347.4	349.6	351.1	361.7	358.7	361.2	363.6	364.3	362.4	367.4	367.7
% Chg Previous Month SAAR	-15.8	4.6	1.7	7.8	5.1	43.2	-9.7	8.7	8.3	2.4	-6.1	17.8	1.1
% Chg Same Month Last Year	8.3	6.7	6.2	6.7	5.8	9.4	7.4	8.0	7.0	7.6	5.3	4.8	6.4
Manufacturing & Trade Sales (\$thous. 2000 chained)	923.1	917.2	920.5	929.0	935.7	947.0	942.9	947.7	944.4	951.9	946.3	949.6	*950.6
% Chg Previous Month SAAR	1.1	-7.4	4.4	11.7	9.0	15.5	-5.0	6.3	-4.1	9.9	-6.9	4.3	1.3
% Chg Same Month Last Year	3.0	2.4	2.8	3.3	3.0	4.0	4.1	4.6	3.7	4.0	3.0	3.0	3.0
US Consumer Expectations (1966=100)	76.9	63.3	63.2	69.6	80.2	78.9	74.5	76.0	73.4	68.2	72.0	72.5	68.0
% Chg Previous Month AR	-72.0	-90.3	-1.9	218.2	448.0	-17.8	-49.8	27.0	-34.1	-58.6	91.7	8.7	-53.6
% Chg Same Month Last Year	-12.8	-28.1	-24.6	-18.3	-11.8	-7.9	-11.7	-8.2	-4.7	-9.4	-15.3	-15.2	-11.6
Ave. Prime Interest Rate (%. NSA)	6.44	6.59	6.75	7.00	7.15	7.26	7.50	7.53	7.75	7.93	8.02	8.25	8.25
* ARIMA estimation													

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